



**MERGANSER**  
CAPITAL MANAGEMENT

# THE MERGANSER FLASH

FIXED INCOME INSIGHTS

As of May 31, 2021

## MARKET COMMENTARY

### The Economy

The US recovery continued through May with broadly positive economic data, though no longer beating high expectations. Most significantly, a lackluster employment report was a significant 'miss'. Signs of inflation have increased, but future expectations remain modest. Retail sales in April retraced their March highs, yet consumer confidence continues to show robust demand, notably for present conditions. The manufacturing sector remains resilient with strong demand, particularly in a recovery of automobile orders of late, yet shortages in the semiconductor space have weighed on factory output. Demand in the housing market continues to be robust, however new and existing home sales have been held back by the lack of inventory. Additionally, the shortage of labor and supply inputs have possibly led to a slowing in housing starts in May.

### Structured Markets

The CMBS market has priced \$105 billion year to date. Traditional 'conduit' issuance is down almost 30% y/o/y to a modest \$11 billion. Growth is coming from Single Asset/Borrower deals given an increase in commercial real estate M&A (\$19bn ytd, up 90% y/o/y) and Agency CMBS (\$59bn, +45%). CRE CLO's are seeing tremendous growth (\$16bn, +310%) given the need to finance transitional assets with cash flow uncertainty post Covid. Credit curves continue to flatten as a reopening economy benefits CRE broadly while idiosyncratic problems are dealt with.

### Corporate Credit Market

Despite inflationary pressures affecting risk assets elsewhere, corporate credit spread reaction was fairly muted during the month. The Bloomberg Barclays Corporate Index tightened 5 basis points (bps) to end at 83 bps in May. Total issuance for the month came in at \$141bn, however, the street is calling for roughly \$90-95bn in primary supply for the month of June.

### Government Market

The 2-yr and 5-yr yields decreased by 2 bps and 5 bps respectively for the month of May. The 10-yr yield decreased by 3bps and the 30-yr yield decreased by 1 bp, in May.

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## SPREADS TO TREASURIES



## BLOOMBERG BARCLAYS BENCHMARK DATA

	Total Return MTD
1-3 Yr Gov/Credit	0.12%
Int. Gov/Credit	0.40%
Aggregate	0.33%
1-3 Yr US Tsy	0.09%
3-5 Yr US Tsy	0.34%
5-10 Yr US Tsy	0.60%
10-20 Yr US Tsy	0.20%
20+ Yr US Tsy	0.52%

## BLOOMBERG BARCLAYS AGGREGATE SECTOR DATA

	Total Return MTD	Excess Return* MTD	Current YTM
Corporates	0.77%	0.47%	2.14%
Financials	0.72%	0.44%	1.76%
Industrials	0.82%	0.52%	2.28%
Utilities	0.52%	0.22%	2.52%
RMBS	-0.18%	-0.36%	1.75%
CMBS	0.71%	0.37%	1.47%
ABS	0.22%	0.13%	0.40%
Agencies	0.26%	0.06%	0.82%

\*Month-to-date performance of spread bearing bonds versus duration-matched Treasuries